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Moldova as a Neighbor of an Expanding EU: Economic Challenges

by Anatol Gudim, presented at the International Conference "European Perspectives for the Republic of Moldova", organized by the Stability Pact for South-East Europe, Munich

Abstract:
It seems that the protracted stay of Moldova within a so-called "grey zone", area of geopolitical uncertainty, comes to the end. Now, after Brussels has launched the "Wider Europe" concept, the Government declared the idea of Europeanization to be an official priority and recent polls ascertained that 70% of the Moldovans favored EU integration. Since Moldova is not a real candidate for the EU membership in the mid-term perspective, there is enough time for adaptation of its economy to the European criteria as an "EU neighbor". Basically, Moldova should accelerate reforms regardless of the fact whether Moldova will be an EU member or not. This requires normalizing relations between the state and the economy, maintaining macroeconomic stability, improving business competitiveness, activating employment and human resources development.

European choice is a strong incentive for Moldova, since it is this choice that provides the country with both democracy and institution-building, internal stability and external security. Moldova today is a partitioned state located at the periphery of the uniting Europe. When the EU expands to the east after 2007, the Republic of Moldova, including Transnistria, will border upon the region that professes principles of stability and security, prevention and elimination of conflict situations. Reunion of the country will open new possibilities before Moldova: strengthening its statehood based on international norms and rules; ensuring economic growth in view of improving the country's image and activating foreign trade, investments inflow and restructuring of the external debt; enhancement of the population's living conditions and poverty reduction.

The future position of the Republic of Moldova as an EU neighbor will depend mostly on the economic policy pursued today. On the whole, the nature and direction of reforms initiated in 90's – given all their inconsistency and contradictoriness – transformed a centrally planned economy into a market one.

At one time Moldova even enjoyed a reputation as one of the leading reformers in the region. By the mid-90's Moldova's policy-makers had successfully tackled a number of first-generation reforms, such as freeing up the vast majority of prices and liberalising domestic trade. Similarly, responsible monetary policies had brought a relatively quick end to the hyperinflation experienced in the early 90's, while liberalised trade policies permitted Moldova to become one of the first CIS countries to join the WTO. In terms of privatisation, a mass voucher scheme relatively quickly sold off the state-run small and medium enterprise sector. As a result, Moldova's private sector now accounts for 90% of officical GDP, dominating not only the nascent services sector but also agriculture, following the break-up of collective farms in the late 90's, and industry, following the post-privatisation restructuring of two-thirds of the country's manufacturing enterprises.

Over a short period of time economy of the Republic of Moldova firstly went through a sharp downfall (by 2/3 as regards GDP), later endured a stable depression (aggravated by consequences of the Russian financial crisis of 1998) and, finally, during the last four years, experienced renewal of economic growth, increasing internal consumption and incomes of the population.

Moldova's economy and its trade, earlier fully oriented to the East, have started to turn gradually to Europe. Thus, in 2003 more than 1/3 of Moldova's export fell on EU and CEE countries. To a certain degree, this was facilitated by realization of the Partnership and Cooperation Agreement between the EU and Moldova (since 1998). Priorities realized now by both parties are as follows: negotiations on a Free Trade Area, investment promotion, customs and cross-border cooperation, justice, home affairs and legal approximation.

The problem is that over the last years Moldova stayed within a so called "grey zone" – zone of geopolitical uncertainty. But even in this situation the country has already received about 300 mil euro of aid from the EU within the framework of the European Commission, TACIS and other programs. These funds were meant for macroeconomic support, stimulation of private sector and export, as well as for reformation of administrative and judiciary systems.

At the present, though, Moldova's leadership puts the question more actively – it declares that European integration is an external policy priority of the country. The Government has finally prepared the Concept for European Integration, which emphasizes that "on the internal level the actions of the Republic of Moldova will be mostly oriented towards meeting the Copenhagen criteria". And further on: "a progressive economic development of the Republic of Moldova represents the basis for the improvement of economic environment and consolidation of the relations with the EU. Promotion of structural economic reforms is a way to modernize the Republic of Moldova, to lessen and gradually eliminate gaps between developed European states and to create a functional and transparent market economy compatible with the EU principles, norms, mechanisms, institutions and policies".

These are our intentions. The reality is much more contradictory. And results of 2003 show it. The Government thinks "2003 will go down in history as a year of new achievements in socio-economic development of the Republic of Moldova" (Prime-Minister V. Tarlev in the Parliament, 26.12.2003). But Fitch Ratings evaluated, nonetheless, 2003 as "another disappointing year for Moldova… the government has failed to accelerate structural reforms" (5.12.2003).

The truth apparently is somewhere in between. One could assess work of the Government, Ministry of Finance and National Bank as successful based on the fact that they managed to maintain macroeconomic stability, there were positive changes in industry, constructions and services, incomes of the population increased, but the Government's activity along the reformation path has been mostly based on the "one step forward – two steps back" principle, which was the cause IMF and World Bank were so evidently disappointed saying that Moldova's liberal-market economic course is being transformed into state dirigisme.

Any government has to produce optimism. And ours does, as well. Results of the year, according to official estimates, are very optimistic: GDP grew by 6.8%, industry – 17.0%, domestic investments – 23.0%, export – 25.1%. State budget incomes increased by 36.2% and incomes of the population – 19%, including average monthly wage in the national economy – by 31% and pensions – by 28%. Social sphere received 53.7% of the total expenditures of the consolidated budget.

These indicators are used by the Government to confirm that its actions to revive the economy are correct. It would be proper, though, at the same time to mention the risk factors as well that in 2003 intensified, rather than subside. Among them are:

- *Quality, structure of the GDP growth*. Share of real sector is rather small within the 2003 GDP growth. Its largest part is being formed in services and by net taxes on goods and import. GDP growth given such its structure is not equivalent increase of real resources at all;
- *Unsatisfactory state of business environment,* which shows through insufficient volume and structure of export (it is still less than the 1997 level), uncertainty of foreign investors' disposition, freezing of privatization and preservation of a vast shadow economy sector;
- *Critical state of the country's balance of payment* due to almost double exceeding of import over export, while after relations with IMF and World Bank had cooled off possibilities of receipt of currency through external loans and investments have sharply dropped. Of a little help is replenishment of the country with money transfers of our citizens working abroad – circa 500 mil USD in 2003;
- *Inflation leap* up to 15.7% in 2003 (4.4% in 2002) and 20.0% increase in prices for foodstuff. Approximate 1/3 increase of wages and pensions also left its traces, even though wage arrears reached 13,3 mil USD. Danger emerges of a critical gap between the need to expand monetary aggregates and capacities of the inflation-free emission;
- *Further increase of external* (1,4 bil USD) *and internal* (2,9 bil MDL) state debt;
- *Unreformed state machinery*, which is the cause many "2003 initiatives" either were not realized, or yielded small or negative results. Among them are: implementation of the strategy of economic growth and poverty reduction, development of a competitive environment and small and medium business support, activization of export and foreign investments attraction, administrative-territorial reform, fight against economic crimes and corruption, rapprochement with Transnistria.

Unfortunately, 2004 is another pre-election year and, of course, there will be a lot of PR-economy, Government's promises and counter-critics of the opposition. Nonetheless, one could insist that the country's economy had already adapted to market conditions and therefore growth inertia has already emerged, and given all risk factors no one should expect any force majeure events during 2004. There are encouraging signs that, economic policy will finally become intelligent and we will get a "year of active actions".

Reasoning from that, the Government and the business community must concentrate on improving the functioning of the economy:

- *Normalizing relations between the state and economy, improving the business environment, developing the legal and institutional market infrastructure* and eliminating the non-market mechanisms of market regulation;
- *Converging the existing and future Moldovan economic legislation with the EU's legislation* (*acquis communautaire*); the objective is to create a coherent set of rules facilitating the development of trade between Moldova and the EU. From the point of view of the economy, the most important are the norms regulating the financial situation and functioning of economic entities, and the norms regulating economic relations;
- *Maintaining macroeconomic stability*, lowering the inflation rate, *creating incentives to save and invest*, ensuring stability of public finances through limiting the scale of deficits and the public sectors debt and *carrying out of reforms of the social security system* and the financing of the health care system, while of the same time striving towards limiting taxation and the role of the state in the redistribution of incomes;
- Implementing *restructuring programmes*, *allocating resources to the most efficient sectors of the industry*, inc*reasing productivity and the competitiveness* of products which will take into consideration the timetable for liberalization of the trade between Moldova and the EU. Industrial policy of the Government must be based on the assumption that the key to success of Moldovan enterprises in the Union market will be the role of management and their market strategies, as well as the ability to achieve fast increases of productivity through investing in both human and material resources;
- *Structural transformation of agriculture and rural development* will be related to the implementation of two parallel processes: modernization of agriculture aimed at improving the agricultural and socio-professional structure and increasing the competitiveness of Moldova's agriculture; and diversified development of rural areas allowing permanent or temporary outflow of agricultural workers to non-agricultural jobs and support for alternative sources of income accompanied by development of the technical and social infrastructure of rural areas;
- Intensifying state and private sector participation in the *development of the infrastructure* (electric power sector, gas system, telecommunications, transport, water supply) through their financing from budget resources and creating incentives for participation of foreign investors;
- *Improving the allocative role of the labor market, supporting the development of human resources* and in particular providing the necessary funds for the development of science and improvements in the quality of education;
- *Consumer protection*: adaptation of Moldova's legislation and business practice to the requirements of the EU, creating a product safety monitoring system;
- *Ensuring a well-balanced socio-economic development of the country's regions* based on stimulation of development of *towns – growth poles*, efficient utilization of local labor, financial and natural resources, capacities formed by the "Upper Prut" and "Lower Danube" *Euro-regions, cross-border cooperation*, as well as *investment projects* implemented within the framework of the Pact for Stability in the South-Eastern Europe;
- *Thorough information of the society on the neighborhood process* being carried out by the Government's promotion activities and non-governmental institutions. The overall

positive attitude of Moldovans towards the EU, nonetheless, contains many myths, anxieties and hopes. Therefore, a vigorous information campaign aimed at presenting all the benefits and costs of the neighborhood with the EU to prepare the country's population for the life when Moldova's geo-political situation after 2007 will be dramatically changing.

The Government is convinced that there are no fundamental contradictions between the pro-CIS and pro-EU policies. The European Commission's opinion is apparently different declaring that in the mid-term perspective Moldova has no chances of becoming an EU member. The EU Board started to work out an action plan for Moldova. And further everything will depend on political will and consistency of actions of the Moldovan party.

Proposing ever new initiatives along the European direction (as also regards settlement of the Transnistrian conflict) we should not slacken efforts to realize political and economic clauses of the EU-Moldova PCA. The PCA potential is far from being fully realized. What can PCA give to Moldova as regards approaching Europe? This includes:

- creation of joint bodies (including the higher level) to examine all problems related to partnership and cooperation between the RM and EU;
- formation of the "functioning" legal environment through approximation of Moldovan legislation to the EU one;
- accustoming to universally recognized rules of international trade;
- gradual transition to normal conditions of competition, which in the end should raise the economy's efficiency;
- financial assistance of the EU in developing key sectors of our country, which helps implement economic and social reforms.

Now, the most realistic for Moldova is its participation in processes of sectoral integration with the EU. This means ensuring Moldova with autonomous trade preferences followed by the Free Trade Agreement, infrastructure development, border control, etc. One of the priority directions of the PCA implementation is creation of a free trade zone between Moldova and EU. It is important to mention that since the present Moldova still cannot assume obligations to create a zone of free trade with the EU (due to underdeveloped competitive environment and administrative capacities), the EU is willing to consider new possibilities of providing Moldovan goods access to the market within the framework stipulated by the WTO.

Speaking of Moldova's European vector, one should consider both "pros" and "cons" of such orientation. Indeed, it could be already a near future when Moldova as a new neighbor of the EU will be able to count on raising financial and technical assistance, facilitation of visa regime, access to new markets. At the same time, given the Moldova's unavailability, some of these advantages may turn into problems.

Thus, for instance, transition of the united Europe to common norms and standards will undoubtedly facilitate movement of goods throughout its market. With this in mind, Moldova should provide "euro-harmonization" of its standards and requirements and the conformity assessment procedures. Sluggishness will sharply worsen the access of Moldovan products to European markets, especially as regards foodstuffs.

Another important aspect is attracting foreign investments into the country. And this requires urgent improvement of the country's investment climate; otherwise after the EU enlargement it will be our neighbors – the new EU members – who will become main recipients of European subsidies and technical assistance programs. It is not excluded it will be the new members' economies that EU will encourage investments into, leaving the "tardy" Moldova outside this activity.

Process of Moldova's approaching Europe requires a lot of efforts and time. Therefore it is not rare when a question arises: is EU membership an absolute necessity for Moldova? To answer this question, a more detailed analysis of the impact of EU policies (Common Agricultural Policy, Social and Labor Market policies, Standard and Costs in Environmental Protection, etc.) on our national interests is necessary.

According to the President V. Voronin "enthusiasm of all branches of power is now focused at the European integration". But this enthusiasm also requires a wider public support. It is still unstable. According to opinion polls, population favors EU and CIS almost equally. Taking this into account, the two-level EU policy concerning Moldova is important – at the level of the Government and the civil society. This will be the case when in our country notion of "integration" will link closer to such notions as "democracy" and "development".

Ultimately, all of us need democratically stable Moldova, integral from the political, social and territorial points of view. And its approach to Europe will undoubtedly enhance external positive impact upon the quality of governance, business and living in our country.

A Look from the Outside: Structural Impediments to Growth Run Risks of Strangulating Moldova's Recovery

by Karsten N. Pedersen, The Netherlands

While reading CISR's recent new discussion papers on economic developments in Moldova some thought came to mind - perhaps useful for your thinking, perhaps just bits for the web to digest.

Year 2003 well-extended an economic performance of high income and spending growth that during past three years provided for remarkable improvements to Moldavian livings standards.

In an increasing liberal economic environment, households' purchasing power rose again last year as not only income transfers from migrant labor abroad continued to increase but also in response to the further opening of the country's external trading regime.

To date, economic reforms have proven largely inexpensive to government budget that continues strive for the soon return to social safety nets well-known from the past - but still unaffordable as public funding arrives principally from low taxation of incomes, external tariffs and modest exercise duties on increasing consumer spending high income sensitive consumer articles. Since late 1990s, budget expenditure extended consistently with revenue receipts offering the financial room to early repayment of outstanding debts - while recurrent expenditure sustaining minimal public service helped maintain the country's productive work force.

On this background, the arrival of growth in 2003 with declining formal sector employment and fiscal budget imbalance symptomize structural deficiencies that pose an increasingly toll in economy recovery by putting into place the question of likely benefits from recent economic reform initiatives.

Moldova endures – with her growing share of labor force locating abroad – a migrant society where small change to earning and employment opportunity tends to generate large flows of job seekers between the domestic economy and foreign countries. The government – in collaboration with the international financial institutions – recently embarked on a large scale poverty reduction program whose positive incentive effects on the country's labor force to reside and contract jobs domestically only gradually ameliorates as the provision of basic social service recovers and opportunities to take formal sector employment improves the to country's poor that in the past migrated to assume informal employment as illegal labor abroad.

With imperative in mind, that pubic proceeds from ownership reform and reform of government recurrent revenue base process as extremely slow pace - expenditure warranted by increasingly ambitious government reform surface as overly ambitious.

Agricultural output reduced in 2003 – considerably affecting the lives of Moldova's large rural population and substantially clouded their prospects to sustain a reasonable future living from their farms. Recent land ownership reform coupled with a literal non-existence of logistical market structures including transport webs and the technical assistance warranted to ignite a new Moldavian agrarian economy – while eroding historical production incentives – hereto failed to install a productivity enhancingalternative to former cooperative farming industry.

External viability nevertheless continued ameliorated as National Bank of Moldova's foreign currency holdings rose with a reasonable gradualism – eliminating foreign currency risks to the lei while posing minimal risks to inflationary pressure of reserve money origin.

With the reasonable assumption that labor migration continued generate substantial outflows of skilled Moldavian labor during 2003 – as demonstrated by a record high level of remittance payments received from abroad – educational reform remains a principal issue. Moldova's government may accommodate requirement to improve recurrent budget balance by rescaling access requirement while providing new lines of specialization at higher level education. Evidence from economies of broadly similar nature such as the new Baltic republics suggests that substantive admission fees may resolve as a viable avenue for public revenue reform while providing better incentives for the direction of students into their choice of expertise.

Moldova's educational base and the country's national training institutions nevertheless remain amongst the country's strongest assets and need maintained as prime pillars for future growth. While obvious trade-offs between labor drain and requirements to sustain high educational standards raise shorter term concerns that need immediate policy attention – a new enterprise environment that coaches the country's work force into higher productivity jobs provides the better alternative to 'quality inferior' educational reform.

As demonstrated by last year's growth to industry output and business investment – slowing the pace of privatization may not in itself retard the pace of economic revitalization. While Moldova integrates deeper with her historical markets in Russia and new markets within the European Union – challenges and opportunity to Moldova's labor force raise new incentives for employment seekers to reside at home.

Most urgent is a policy reform purporting new investment in Moldova's non-tradable assets base – with the motivation to enhance economic returns from improvements made to the country's human capital base. In this regard, the creation of an open business environment for productivity growth in a large agrarian sector and onward processing of its products warrants immediate attention. While new market re-orientation purports the creation of a supply response to recent ownership reforms –provision of new public service should over a slightly longer term substantially raise benefits from holding a job in this increasingly migrant economy.

As the ripe fruit needs fertile growing conditions for new trees to be raised – East European labor demands cultivating environments to build an income base for future generations.

Wheat Crisis Monitoring: 2004 Q1

by Galina Selari

The situation at the Moldovan wheat, flour and bread markets still remains to be quite difficult in 2004 Q1. Despite the actions aimed to activize the wheat and flour import taken by the Parliament on the 25th of December, 2003 (Law #568-XV), their supply to Moldova's market was quite modest. According to the estimate of the Ministry of Agriculture and Food Industry *there were imported 7.27 thou tons of wheat and 31.697 thou tons of flour in 2004 Q1* and Moldova will need another 115 thou tons to provide for its necessity in wheat till the new harvest, since only 131.27 thou tons (or 43.8%) out of the planned 300 thou tons were imported.

The attempts to alleviate the impact of the bread price rise through production of cheap bread by *Franzelutsa SA* affected negatively its financial indicators and, as a result, Franzelutsa SA, supported by the Ministry of Agriculture, *worked out a draft programme to prevent the enterprise's bankruptcy* envisaging: first, the state is to restore at least a part of the lost floating assets (9 mil MDL according to some estimates) and introduce a compensation mechanism of the poorest population strata from the state reserve and, second, the compensation from the state

reserve at prices should provide for at least zero profitability of bread supplies to state institutions (hospitals, etc.) where up to 25% of cheap bread is delivered.
The situation that has developed in the country's bread supply (bread price rise first of all) and information gathered by the leaders of Franzelutsa SA was examined on February 28, 2004 at the session of *Higher State Council for Security* (HSCS). The Council decided to form *a special parliamentary commission* to assess the situation on the wheat and bread market. That same day the Government during its special session in pursuance of the HSCS' decision dismissed A. Roibu, director of the Center for Fighting Economic Crimes and Corruption, G. Lungu, deputy director of the Agriculture Direction of the State Chancellery and reprimanded D. Todoroglo, Minister of Agriculture and Food Industry.

As a result of the parliamentary commission's investigation of the situation at the wheat and bread market *several criminal cases were opened* (including cases against former executive officers of Franzelutsa SA).

Considering the fairly low import activity the Government formed at the beginning of March *a working group within the Ministry of Agriculture* led by the Minister of Agriculture and entrusted it with a task to provide the country with bread. It decided to buy 25 thou tons of food grain at the lowest possible price at the state budget expense. It was supposed that the delivery would be done during March. But this intention was not realized in short terms.

The corresponding amendments were made to the Law on the State Budget for 2004. The money has to be reimbursed to the budget immediately after the wheat is sold at the internal market.

It was only 18th of March, 2004, when the National Agency for State Purchases (NASP) carried out the first tender for purchase of 25 thou tons of food grain for the needs of the State Agency for Material Resources and Humanitarian Aid. Terms for companies – participants were as follows: payment upon arrival of wheat to the Ghindesti railway station, Floresti, gluten substance in wheat of the 2003 harvest no less than 25%, protein substance – 12.5%, humidity no more than 14.5%. Three companies applied to participate: "Product-Impex" SRL (25 thou tons of food grain from Canada at 148 USD per ton); "Trans Oil" LTD (12,5 thou tons of food grain from Kazakhstan at 222 USD per ton); "Kenja" SRL (25 thou tons of food grain from Kazakhstan at 175 USD per ton).

On the grounds of failure to comply with the tender terms the NASP declined all proposals: "Product-Impex" SRL (laid down a condition that delivery has to be paid immediately after shipment from Canada); "Trans Oil" LTD (delivery of only 12.5 thou tons instead of the declared 25 thou tons); "Kenja" SRL (presented incomplete set of papers).

The second tender was organized by the NASP on the 6th of April, 2004. There were four companies that participated: "Voest-Alpinie Intertraining" (25 thou tons of wheat at 233 USD per ton – delivery of goods to the Transnistrian border – and at 245 USD – delivery to the Ghindesti railway station, Floresti); "Trans Oil Ltd" (13 thou tons of food grain to the Ghindesti railway station at 2.72 thou MDL (226 USD) per ton); "Kenja" SRL (25 thou tons at 165 USD from Kazakhstan to the Ghindesti railway station), "Moldova Druc" (25 thou tons from Latin America or Canada at 164 USD per ton or 50 thou tons at 161 USD per ton to the port of Odessa, Ukraine). "Product-Impex" SRL renounced its participation in the second tender due to disagreement with the payment terms (delivery of wheat to the Ghindesti railway station). *The results of the second tender organized by the NASP are still unknown* (it was supposed that they would be announced in 15 days).

In the meantime, entrepreneurs prefer importing flour. At the present, at the *Moldovan universal commodity exchange* wheat flour (in any amount and of any quality) is offered at 4.8-5.2 thou MDL (375-406 USD or 220-250 euro) per ton.

It is not improbable that, if a company wins the tender for the wheat supply, the country will not get the wheat earlier than the second half of May, 2004. We should note that prices for wheat at the international market remain to be quite high (*see the FAO forecast*).

Considering that both Moldova and the region as a whole are into a good crop of cereals and the supply deadline of the "state wheat" has not been set yet, it must not be ruled out that the wheat supplied under the state purchase could turn out to be excessively expensive and the situation of 1997 will recur (*see the Moldovan Wheat Market Research, FSP/CISR, 2003, p. 9*).

It is symptomatic that the Government prepared in March, 2004, a draft law stipulating for repudiation of grain-purchase enterprises' debts to the Ministry of Finance resulting from the difference between the purchasing prices for wheat bought for external credits rendered within the PL-480 Programme and the prices at the internal market at the time of its receipt.

Besides the state and market actions there is another channel of coming of foodstuffs to Moldova – *humanitarian aid*:

- 10 thou tons of food grain (Russia), 2003;
- 2.1 thou tons of food grain (China), 2003;
- two US organizations, IFE&CN and FFP, will supply 8.9 thou tons of flour for macaroni production within the Food Humanitarian Aid Programme for 2004 proposed by the international organization IPND (USA);
- the Swiss Agency for Development and Cooperation started a project for urgent humanitarian aid in 200 Moldovan villages. 7 thou persons will get one-time cash compensations of 850 MDL within the project. It is realized in collaboration with the Ministry of Labor and Social Protection.

The crop forecast for 2004 in Moldova gives hope. According to the data of the Ministry of Agriculture there were 264 thou ha sown with winter wheat in autumn of 2003 (50 thou ha more than in 2002); preparation for the spring field work is done ahead of the schedule. Economic units have been supplied with seed materials; they are now being provided with fuel, including through Moldresurse IS. The total wheat harvest is expected at circa 3 mil tons. Another action followed: on 8^{th} of April, *the Parliament presented an initiative* to the Government to supplement the cereals list (rye, oats and maize) exempted from customs fees during import and prolong the deadline the cereals exemption from the customs fees payment ends – from the 1^{st} of July to the 1^{st} of September, 2004.

Annex

FAO forecast for 2004/2005 marketing year for world wheat production is 596 million tons, 6.6% more than in 2003. Compared with last year, output is expected to increase significantly in Europe and slightly in Asia, more than offsetting likely reductions in all other regions, the most noteworthy being in North America and in Oceania.

Wheat production

	2003 (estimate) (mil. tons)	2004 (forecast) (mil. tons)	2004 cf 2003 (%)
Asia	**244.9**	**251.6**	**2.8**
including:			
China	86.0	83.1	-3.4
Kazakhstan	12.0	13.2	9.6
Africa	**21.5**	**20.1**	**-6.6**
Central America	**2.9**	**2.0**	**-30.6**
South America	**22.9**	**21.8**	**-4.8**
North America	**87.1**	**81.5**	**-6.4**
including:			
Canada	23.6	23.5	-0.1
United States	63.6	58.0	-8.8
Europe	**154.5**	**196.7**	**27.3**
including:			
EU	91.5	102.8	12.4
Hungary	2.9	4.2	43.9
Poland	7.9	9.0	13.3
Romania	2.5	6.1	145.3
Russian Fed.	34.0	43.4	27.6
Ukraine	4.3	15.7	268.7
Oceania	**25.3**	**22.3**	**-11.9**
Australia	24.9	21.9	-12.1
World	**559.0**	**595.9**	**6.6**
Developing countries	266.3	267.5	0.4
Developed countries	292.7	328.4	12.2

In *Europe*, a strong recovery in wheat production is expected in the *EU* after drought sharply reduced output last year. *Aggregate output of the EU* is forecast at 102.8 million tons. Among the major producing member states, output is forecast to increase by 23 percent in France, and about 11 percent in both Germany and the United Kingdom. By contrast, output may decrease slightly in Spain because of delayed planting reducing yield potential.

Among the *central and eastern European countries (CEECs),* prospects for the winter cereal crops are also generally favourable. In the three major producing CEECs - *Hungary*, *Poland* and *Romania* – aggregate wheat output is forecast to increase by about 6 million tons, to over 19 million tons, representing a 45 percent increase from last year's poor crops.

In the *European CIS* sub-region, the area planted with winter wheat rose from the previous year's poor level to an estimated 14.5 million hectares. Based on the condition of the winter crops, which account for about 50 percent of the aggregate (winter and spring) output, and assuming normal conditions for the spring crops, the aggregate wheat output in the region is forecast to more than double from the reduced 2003 level to some 61 million tons but would remain below the bumper crops recorded in 2001 and 2002. The *Russian Federation* and *Ukraine* account for the bulk of the total.

The FAO forecast for world trade in wheat (including wheat flour in grain equivalent) in the season ending 2003/04 (July/June) has been raised by 3 million tons since November to 99.5 million tons. The revision mainly reflects higher forecasts for wheat imports by China, the EU, Romania, and Ukraine.

Turning to *exports*, the fundamental picture is that of major exporters regaining their market share after two consecutive seasons of declining sales. All major wheat exporters, with exception of the EU, are likely to increase sharply their exports this season. Larger exports are expected from Argentina, Australia, Canada and the United States.

Nonetheless, the FAO forecast for trade in 2003/04 still points to a substantial decline of about 6.2 million tons from 2002/03.

World wheat stocks for crop years ending in 2004 are put at 139 million tons, down 48 million tons, or 25 percent, from the previous season. The biggest decline is expected once again in China. Significant draw-downs are also forecast for the Russian Federation and Ukraine as a result of exceptionally poor harvests in 2003.

International wheat prices rose during the first half of the 2003/04 marketing season, supported by reductions in exportable supplies in the EU and in a number of CEECs and the CIS. The price of US wheat No. 2 HRW surged to US$180 per ton during the fourth week in March, raising the average price for the month to US$168 per ton, up US$18 per ton from October and US$22 per ton, or 15 percent, more than in the corresponding month last year. By late March, the CBOT US Wheat futures price for July 2004 delivery was quoted at US$153 per ton, up US$49 per ton, or 47 percent, from the corresponding period last year. However, favourable planting conditions and forecasts for a rebound in world wheat production in 2004, coupled with generally weaker import demand prospects, are expected to restrain price increases in the coming months.

Europeanization and Governance

by CISR

As of April 2005, Republic of Moldova will get its 10^{th} – since gaining independence in 1991 – government. Again, the prime-minister contender will have, under the Constitution, only 2 weeks to prepare programme of activity, functions, structure and personnel of his/her cabinet. As regards the programme, it is clear that it will be expounded in the framework of the Economic Growth and Poverty Reduction Strategy for 2004-2006 (EGPRS) and EU-Moldova Action Plan for 2005-2007 "canonized" by the Parliament. However, it will be harder to define functions and structure, since neither science, nor previous Government elaborated any prior intermediates.
Therefore, it is very likely that – as was the case of previous cabinets – they will try to unite/part ministries and departments, as well as to reduce (once again!) number of state personnel. We have already seen it all, but the number of state personnel instead of reducing has unfortunately grown almost sevenfold since 1990. And the main question remains unanswered: is state administration system ready to modernize Republic of Moldova according to its European choice?

Moldova is returning to Europe, trying to define its place there starting from interests of both the state and its citizens. Situated on southeastern outskirts of the European area, Moldova nonetheless does not want to be a marginal – a country of peripheral economy, culture and mentality. With this in view, Government and the current generation of Moldovan citizens have to work hard to revive the country and raise quality of governance, business and living up to the level of existing European standards.

Transiting to *reforms of the new type*, according to initiatives of the President, V. Voronin, ensuring higher (than 5-6% according to SCERS) GDP growth rates and better consistency in transformation of the state, economy and society in accordance with EU-Moldova Action Plan presupposes further improvement of functions and structure of state machinery. This state machinery, despite partial changes of the last years and the process of adaptation of some of its bodies and officials to market conditions, still bears a strong imprint of past political and economic systems.

Moldova has already lost too much time because of contradictory and ineffective reformation of the 90's. Over this period, central European and Baltic countries managed to build legal and institutional foundation of their statehood, to make economic growth start and draw their competitiveness closer to the EU requirements. With a view to not waste any more time and chances for Moldova's European integration, a system of well-coordinated actions concerning realization of EU-Moldova Action Plan is a number one national priority. It has to be the Government and state machinery that we should start reforming from, since their role in implementation of EU-Moldova Action Plan is principal.

The current system is notable for excessive fragmentation of the central state machinery: there are more than 50 ministries, departments and state agencies. This process has particularly stirred up after 2001, when for each "issue" a special department or agency was formed to strengthen state impact. At that, though, there is no strong centre of the socio-economic policy planning and coordination. This can be Ministry of Economy that is gradually getting rid of the Gosplan atavisms: line-based approach is being replaced in the economy by the problem-based one. But limited potential of the Ministry's key unit – Department of Macroeconomic Policy – does not allow it to occupy a dominant position in relations with NBM, Ministry of Finance and international financial organizations. Some ministries and departments have a pronounced tendency towards administrative interference into business activities.

A new phenomenon appeared – business based on plenary powers, when ministries and departments transferred "on legal ground" a part of their functions to "affiliated bodies" for rendering of paid services to business and population.

At the same time, as regards the Government's functions and structure regional factor is evidently underestimated, including relations between the center and local public bodies, decentralization of resources and responsibility. As a result, business "crowds around the power" – more than 80% of economic units are registered in Chisinau, while other areas, small towns in particular, did not get over depression. Role of the Government's Apparatus (State Chancellery – before 2005) and nature of its cooperation with the President's Administration have not crystallized yet. Following this, there is direct evidence of inert, fragmented and many-storied structure of governance.

Existing situation affects negatively the process of the country's modernization. First, it hampers any attempts, including initiatives of the President, to liberalize, deregulate or demonopolize economy. Group interests penetrating through different channels often enjoy organizational and political support inside the Government and further – in Parliament. Under such conditions, a dynamic, well-coordinated policy of reforms so essential for realization of EU-Moldova Action Plan seems to be hardly realizable. It would be arguable to hope that Ministry of Foreign Affairs in the person of the corresponding department will cope with all this work. In Ukraine, for instance, these functions are entrusted upon Ministry of Economy and European Integration, and upon Ministry of European Integration in Romania. But, on the whole, as experience of the countries – new EU members showed, responsibility is incumbent on all levels and components of the state administration system.

Experience of those countries also shows that formation of a new Government is the best time for deep changes in functions and structure of the state machinery. In this case, this process infringes less on private interests of the Cabinet members. The first stage of reformation usually consists in reducing number of ministries and departments (no more than 20) and, after that, in rationalizing structure of the Government, apparatus of which would deal only with functions of expert and technical service to the Prime Minister and Government as a collective body.

Within the changed structure, one of Vice Prime Ministers, on behalf of the Prime Minister, would be responsible for coordinating processes of European integration, while another – for coordinating socio-economic policy of the Government. It is Ministry of Economy where functions regarding realization of foreign trade policy, regional development and cross-border cooperation, as well as creation of favorable conditions for investments and entrepreneurship have to be strongly reinforced. It is necessary to reconsider functions of ministries of industry and agriculture. Their functions should be defined by new realities of the country.

Once functions and structure of ministries and departments were “Europeanized”, their deep internal reorganization is necessary. Thereupon only, an opportunity will appear to not only reduce, but also optimize employment in state administration, save budget funds and direct a part of them to raise wages of state officials, especially in sub-divisions that are directly engaged in practical realization of EU-Moldova Action Plan.

In aggregate, actions to reform state administration should ensure:

- An evident targeting of the whole Government at realization of EU-Moldova Action Plan, including its constituent – Strategy of Economic Growth and Poverty Reduction (SCERS);
- A distinct division of political positions in government (prime minister, ministers and their deputies, political counselors) from apolitical state service (all other positions);
- Competitive bases and transparency of selection of candidates for state service, financial and ethical stimuli for employment, efficient system of raising qualification of state officials, observance of the ethical code of conduct, including anti-corruption, of both persons holding political positions and professional state officials;
- Training of specialists for practical work in key areas of EU-Moldova interaction: knowledge of European law canons will let obtain through negotiations the most advantageous conditions for transitional period and so-called temporary derogations (refusal to employ obligations of a candidate country) that render time to adapt to norms and conditions binding in EU. And it is necessary to create an effective informational and personnel database to solve issues emerging during negotiations;
- Rational use of resources of the technical aid from European Commission and other donors with the switch to principles of long-term programming and object/problem-based approach, concentration on priority sectors and maximization of “hard” aid meant not only for consultations and education, but for investments and infrastructure as well;
- PR-actions both at international forums and in bilateral relations that would characterize Moldova’s readiness for European integration.

It is clear that these actions cannot be realized in form of an “emergency campaign”. They require continuous, laborious work and not one, but several nearest governments. Chances to realize the reformatory scenario depend on political will, continuity and coordination of actions of legislative and executive powers, and confidence of business community and population towards them.

Case of Moldova: Mass Labor Migration as a Consequence of Inefficient Reforms

by Anatol Gudim

"International Migration Regimes and Economic Development"
Workshop of the Expert Group on Development Issues
at the Swedish Ministry of Foreign Affairs,
Stockholm, May 13, 2004

Prof. Lucas' study[1], quite impressive in its depth and coverage of all aspects of international migration, prompts to evaluate the causes and development of this phenomenon in Moldova. Indeed, as Prof. Lucas mentions, in the 90's Moldova has unexpectedly become the poorest European country; no less than 1/3 of its labor force emigrated and the "tsunami" of remittances reaching 15-17% of GDP now turned out to be the bolt from the blue for the Government. It was only 2003 when the Law on Migration was passed and the Department of Migration under the Government was established; a series of projects are implemented with the help of the European Commission, UNDP, ILO and donor-countries (statistics, SME development, human trafficking, etc.); sociological polls are conducted.

At the same time, government policy concerning migration is still uncertain, which is indicated by the lack of any comments on this issue in the PRSP[2]. That is why Prof. Lucas' analysis of the experience of other countries and regions as regards adaptation to the phenomenon of migration is very valuable from the methodological point of view for elaboration of policy recommendations for Moldova.

In order to accomplish this, it is important to understand the causes of this deadlock, stable depression in the country's economy and labor market situation, the nature of migration, impact of remittances on family, community and the country as a whole; does migration help reduce poverty in the country? And, finally, how can labor policy be adapted to the new realities of Moldova as an EU neighbor?

Moldova as a migrant-sending country

There can be named at least three causes that turned "the garden of the Soviet Union" (N. Khrushchev) into a nidus of instability and poverty:

- weakness of the young state, protracted search for the national (uniting) idea and location in a so-called "grey zone" – zone of geopolitical uncertainty, which deprives the active part of the population, especially the youth, of clear perspectives for the future;
- the frozen conflict in Transnistria;
- contradictory and inconsistent reforms in the economy.

Despite that since 2000 official statistics has been recording a GDP growth, the largest part of GDP comes from outside the real sector of the economy. The bad state of business environment, acute lack of investments, critical state of the country's balance of payment, large external and internal state debt and unreformed state apparatus – all these affect in a negative way the quality of economic growth[3]. One can judge about the low efficiency of reforms by looking at the main macroeconomic indicators of the Republic of Moldova during the transition period (see the table). It can be asserted unambiguously that the burst of migration in Moldova's case was caused by socio-economic factors, rather than being motivated politically or ethnically.

Social and Economic Indicators							
	1997	1998	1999	2000	2001	2002	2003
Population- total, thousand persons	3654	3652	3646	3639	3631	3623	3612
Economically active population, thousand persons	1671	1809	1682	1655	1617	1615	1474
as % of total population	45.7	49.5	46.1	45.5	44.5	44.6	40.8
Employed population, thousand persons	1646	1642	1495	1515	1499	1505	1356
as % of economically active population	98.5	90.8	88.9	91.5	92.7	93.2	92.0
ILO unemployment rate, %	…	9.2	11.1	8.5	7.3	6.8	7.9
Wage earners, thousand persons	1127	1033	849	714	672	690	677
% as of employed population	68.4	62.9	56.8	47.1	44.8	45.8	49.9
Nominal wage (month average), USD	47.5	46.6	28.9	32.8	42.3	50.9	63.9
Inflation rate (end of period), %	11.2	18.3	43.7	18.4	6.3	4.4	15.7
Gini coefficient (coefficient of income concentration)	0.436	0.443	0.436	0.419	0.428	0.421	0.397
Remittances, USD million	113.0	121.0	109.8	159.0	223.0	268.0	347.0
as % of GDP	5.9	7.1	9.4	12.3	15.1	16.5	17.7
Real GDP year-on-year growth rate, %	1.6	-6.5	-3.4	2.1	6.1	7.2	6.3
Nominal GDP, USD million	1929	1698	1171	1288	1481	1624	1958
Exports of goods (fob), USD million	890	644	474	477	567	660	802

Imports of goods (fob), USD million	1238	1032	611	770	880	1038	1356
Foreign direct investment (net yearly flows), USD million	78.7	75.5	37.9	136.1	146.1	116.6	25.5
Annual average exchange rate, Lei/USD	4.62	5.37	10.52	12.43	12.87	13.57	13.94
Source: National Bank of Moldova, Department of Statistics and Sociology, CISR Note: Data are presented without information from Transnistria Information on external sector (remittances, export, import, FDI) are presented according Balance of Payments, NBM							

Drastic changes of the 90's in Moldova's labor market were reflected both by the reduction of employment (by one third), and by shrinkage of skilled labor force in industry, as well as degradation of the science servicing this sphere. Total employment in the national economy (excluding Transnistria) dropped from 1.68 mil persons in 1993 to 1.36 mil persons in 2003, or by 20%. But unemployment during all these years has been considerately low (6.8-11.1%, under the ILO methodology) since the most part of economically active population shifted to the informal economy, or migrated.

The active phase of migration had began in Moldova in the mid-90's at the same time as had the post-privatization reorganization of former state enterprises in industry and of large collective farms (kolkhozes and sovkhozes) in agriculture, which has led to the burst in hidden unemployment. One of its indicators is that the wage earners/employed ratio has changed impressively from 72.9% in 1996 to 49.9% in 2003[4], meaning that a half of those "employed in the national economy" are formally employed registered by the statistics, but are actually absent from enterprises.

Migration, remittances and poverty

Some 500 thou to one million of the 4.3 mil residents of Moldova (including Transnistria) are believed to be working abroad. Cyclic and seasonal migration prevails, which makes it difficult to evaluate the real scale of migration. Quarterly estimates of the Department of Statistics (labor force survey) show 280-300 thou migrants, while opinion polls unveil at least twice as much. The Moldovan diaspora abroad has not been consolidated yet.

The panorama of Moldovan migration, according to the ILO/Soros Foundation-Moldova study (2003)[5], is quite colorful:

- one or more members of every third family are working abroad;
- 69.9% of migrants are male and 30.1% - female;

- 30,8% of them are urban residents and 69.2% - rural;
- 80.0% are between 25 and 40 years of age;
- only 1/3 of the total number had no stable work in the home country;
- about 70.9% of migrants left Moldova legally and the largest share of illegal migrants (36-44%) heads for the Mediterranean countries;
- the receiving states are: Russia – 54.7%, Ukraine – 2.8%, Italy – 18.0%, Greece, Portugal, Turkey – 3.9% to 4.4%, Israel – 2.8%, other – 9.8%;
- employment of migrants abroad: constructions – 31.0%, agriculture, small production – 13.5%, domestic services – 30.9%, trade – 10.8% and no less than 10.0% of women-migrants are occupied in the sex industry;
- average monthly wage of Moldovan migrants, USD: Russia – 425, Greece, Turkey – 598, Spain, Portugal – 897, Italy – 941, Israel – 1065, France, Germany and Benelux – 1209;
- 95.0% of migrants used to remit money to their families in Moldova.

The consequences of the labor force export for Moldova itself are very contradictory. On the one hand, it's a dangerous weakening of the country's human resources potential (the outflow of more skilled and educated persons, the impact upon fertility and health). But the remittances, the mastering of new skills and attainments, formation of diasporas as future networks/channels for trade, capital and technology flows back to the home country, are positive facts, on the other.

According to estimates of the National Bank of Moldova, formal transfers grew extremely rapidly: from 1-2 mil USD in 1995 to 109,8 mil USD in 1999 and about 360 mil USD in 2003. And no less than 30-40% of transfers are informal. Thus, the annual amount of remittances exceeds now the average annual export of Moldova in the last five years (about 600 mil USD) and it is equal to the total foreign direct investments over the whole transition period.

It looks like the state was not ready to make use of this money. The lion's share of them were used by households of migrants for immediate consumption and only 10-12% was used for "investments in family" – education for children, purchase of dwellings, land and starting businesses. There were created no structures or mechanisms to accumulate these funds with a view to invest. At the same time, it is quite obvious the impact of remittances on the demand expansion, on the consumption spending and on import expansion (which was 1.7 times as much as the export in 2003), on currency depreciation, and pressure on prices.

However, remittances' influence on the poverty reduction and inequality elimination is insignificant. And their economic benefits mainly go to the higher quintiles of the population. Thus, in 1997-2002 the 5th quintile has been steadily concentrating 48.4-49.0% of the total disposable income of households, while the lower, 1st quintile – only 3.9-4.6%. The improvement of the Gini coefficient was minor: 0.436 (1997) and 0.421 (2002). More than 40% of the population lives below the absolute poverty threshold[6].

Policy remarks

The future position of the Republic of Moldova as an EU neighbor will mainly depend on the economic policy it pursues today. Control and regulation of migration and concomitant processes is one of this policy's components. It is important to consider experience of other countries. The actions presently undertaken in Moldova are focused in general at the legal and institutional shaping of the problem: implementing the Law on Migration and some related subordinate norms, expanding the functions of the Department of Migration under the Government, creating an informational system "Migrant", modernizing border control and procedures, etc. It is planned to ratify the European convention on legal status and social protection of the working migrants, to conclude bilateral agreements with the major countries of destination for Moldovan migrants (Italy, Spain, Portugal, etc.). But it is also important to accomplish actions intensifying the positive effect of migration upon economic development: normalizing relations between the state and private business, stimulating economic units to create new workplaces and the population to save and invest. The "remittances - tsunami" effect is very short-term and it should be used as efficiently, as possible. And another important task is to adapt the migration regime to the new situation emerging after the Eastern EU enlargement that may actually have both positive and alarming consequences for Moldova.

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Employment is the Key Issue

by Galina Selari

The economic growth, its quality, rate, parents and sustainability is one of the vexed question today. And it is widely discussed by politicians, economists and journalists. The issues of export-import, migrants' remittances and others are put on the discussion.

However, the *key question* – employment has remained in the shadow.

The problem of labour resources use remains very acute and that why it should be solved urgent.

Economic transformations and changes in ownership structure resulted in changes in labour relations and employment sphere. During the first phase of economic reforms the response of Moldovan labour market to sharp decrease in industrial output appeared as average *wage cut* but not as *release labour*. So, as compared with 1990, in 1996 the GDP dropped by 63%, amount of wage - by 80%, but the number of employed population – by 20% only. At the same time the king-size shadow economy was created and the unconcealed shadow employment without any legal background or labour contract was in blossom.

The fact that economic growth occurred in Moldova during the recent years came to 6-% on annual average has had no evident positive influence on labour market. It is a pity, but economic growth can't eliminate all social deformations by itself and to belief that it can make this is no more than *illusion*. And such illusions should be disappeared.

In fact, the sizable increase of production had not resulted in job growth but even more the number of employed persons slightly decreased and the number of unemployed went up.

But for all that even an employed person could be considered as semi-employed: in 2003 the average monthly wage size was only 34% above the *minimum* subsistence or enough to cover nearly 70% of minimal consumer budget.

Within certain limits this could be explained by underemployment: those who worked less than full time or are in unpaid vocation (about 5-6% of total employment) and those who work full time, but both the work and income is shared, i.e. ineffective use of labour force.

The shadow employment still exists either. It simply adjusted to new realities: now we have legal labour contracts, but often they have a formal character and as before based on the principle – "*as we will agree*".

Such marginal forms of relations at the labour market have become rather stable. And, strictly speaking, there is no reason to believe that they will ever be eliminated in the foreseeable future.

It appears that this is exactly the price our market has paid over the decade of not-so-consequent reforms.

And here is another illusion: everything depends on investments; once funds are invested into economy, we will succeed in everything, the growth will become sustainable and the universal revival will begin, as well as all other kinds of grace.

There is no doubt that we need investments – labour force follows the production capital flow. And Moldova has been a visual proof of this during all last years. Almost every third family has now its "representative" abroad. In 2003, circa 280 thou of our compatriots worked abroad earning their living (Household Budget Survey data). Naturally, a gradual mental re-evaluation takes place: "work to live" rather than "live to work".

And a question arises – whether our labour market is ready for the investments inflow? There is no simple answer, unfortunately. A phenomenon has formed: stable unemployment coexists with the labor force deficit. Say, there is an excess of managers and jurists, while metalworkers and turners are needed. It turns out that workers of specific professions, specific qualification, specific skills are needed, rather than just workers. And the current labour market often falls behind the real needs of the economy.

The demographic forecasts are also distressing. It looks like 2003 was the last year of the population growth and the absolute number of persons able to work will decrease in the future. In 2010 labour resource growth will make up no more than 9 thou persons and in 2015 the negative growth is expected of 20 thou persons at least (the calculations are very approximate as the last population census was conducted in 1989). One could supplement this with the loss of workers from prolonged unemployment: a person loses qualification after about a year of involuntary idleness and unsuccessful search for work (now, the average period of unemployment in the country is 23 months). Moreover, there is an acute lack of persons who know to work in a workmanlike manner. The reason is obvious: neither employers, nor workers are ready for the full-fledged market relations.

A conclusion arises: the labour market is not ready for investments. Moreover, it is – in a certain sense – a hindrance to activization of investment processes. And if the market is not ready for investments, it is possible that they will not happen or will not yield the expected result.

What can and should the state do under such difficult conditions/ firstly, it should elaborate a complex programme of actions in the socio-labour sphere – a labour market concept and measures of its implementation, i.e. create an effective and civilized labour market in Moldova, which would operatively supply employers with the labour force of required qualification and workers – with the work and adequate wage.

So, with solving employment problem we will achieve both most important our goals: sustainable economic growth and poverty reduction.

A Look from the Outside: Moldova and Ukraine - Bilateral Relations

by Dr. Oleksandr Sushko, Center for Peace,
Conversion and Foreign Policy of Ukraine, Director

International Conference "Europe and the Transition
Process in the Republic of Moldova ",
July 2-3, 2004, Berlin, Germany

Republic of Moldova and Ukraine are close neighbors and natural partners; both countries have similar internal problems and foreign policy priorities. However, bilateral relations are still far from stable and mature. Let me draw your attention to the actual spectrum of Kyiv-Chisinau agenda, which is to illustrate specific political and economic processes in that part of Europe.
So, what is common for both countries?

- Both Ukraine and the Republic of Moldova are so called Newly Independent States, which appeared after collapse of Soviet Union in 1991. They are new actors at European stage.
- Both countries have met similar problems in the process of state/society building and maturing independence, namely: economic and society frustration in the 90s, weak capability of state institution, corruption, backwardness, weak justice and judiciary system, deficit of media freedom, lack of civil culture and the weakness of the 'third sector'.
- Moldova as well as Ukraine belong to the group of the poorest countries in Europe, which essentially limits their capacity in all aspects of domestic and international policy. Both countries have survived from the decade of economic decline and has been growing fast recently (9.4% GDP growth in Ukraine, 6.3% in Moldova in 2003). However, they remain poor in comparison with their Western neighbors.
- Republic of Moldova and Ukraine both have common strategic objective, which is the membership in the EU (unlike Belarus and Russia which have not expressed such an ambition). However their European aspirations remain mostly declarative, without strong pro-European commitments in domestic policy. Both countries created a number of governmental bodies responsible for European integration, but their efficiency looks doubtful. In return, the EU builds its policy on the basis of European Neighborhood Policy, which does not provide the prospect of membership (unlike the EU policy towards Western Balkans), general dissatisfaction by this fact is visible in Kyiv and Chisinau. Currently both countries are in the process of the Action Plan preparation in the framework of ENP. Moldova has already finalized talks, Ukraine is still going on.
- Ukraine and Moldova have close economic and political ties with Russia, military presence of Russia remains sensitive factor, however both states try to avoid becoming satellites of Russia (unlike Belarus).
- Both countries are sending labor migration ones. Millions of Ukrainians and Moldovans work together in the EU and throughout the world. Citizens of both countries suffer from

human trafficking. According to 'La Strada' data, 7% of young ladies-victims of trafficking identified in the EU are Moldovans and 6% are Ukrainians.

- *Having a lot in common Moldova and Ukraine at the same time have important differences*
- The countries belong to different 'weight categories'. Moldova is a small state, in contrary, Ukraine is a 6th largest (by number of population) country of Europe, and it has an ambition to play a role of middle regional power. This difference makes bilateral relations asymmetric.
- Ukraine successfully secured its internal stability and territorial integrity whereas Moldova still has a Transdniestria separatist quasi-state with its non-legitimate 'government'.
- Moldova is a neutral state according to the Constitution; Ukraine is seeking a membership in NATO, developing the special relations with the Alliance on the basis of Charter of Distinguished Partnership (1997) and Action Plan of 2002. Ukraine is a contributor of South-Eastem Europe security being invovlved in peace-building activity in Western Balkans since 1993.
- Moldova is a member of Stablity Pact for Southern-Eastern Europe which provides a hope to join Stabilisation and Association Process offered to Balkan states by the EU.
- Moldova is the only parliamentary democracy in CIS, whereas Ukraine is a presidential republic with stronger authoritarian trends of recent years with unclear prospects. However parliamentary model hasn't guaranteed mature democracy for Moldova yet.
- Moldova has been more successful in the process of joining WTO. It is a member since May 2001. Ukraine is still continuing negotiations hoping to join in 2005.

There are similiariries and differences mentioned above which determine the agenda of Moldova-Ukraine relations. In practice according to my observation *existing level of bilateral cooperation does not correspond to the level needed by both sides to promote their common interests.* There is a visible lack of trust between political elites, lack of coperative civil activtiy. The intensity of relations remains low in comparison, for instance, with Ukraine-Poland relations.

For Ukraine Moldova is evidently an important partner. *Ukraine is a participant of the Transdniestria peace process* (together with OSCE and Russia) from the very beginning of international efforts to tackle this regional conflict which has become a 'frozen conflict' after the active phase of early 90s. The border with Moldova is the second largest border of Ukraine (after Ukraine-Russia border) - 1222 km.

Despite it is a small economy, Moldova is a *second largest trade partner of Ukraine among CIS states* (after Russia). The amount of Ukraine-Moldova trade is comparable with Ukraine's trade with the Netherlands. In the general rating of foreign trade partners of Ukraine Moldova is in the end of top-ten.

However for a long time border and trade issues have been producing tensions rather then friendly cooperation between Kyiv and Chisinau. The border deal was formally complete in June 2001, when the parties simultaneously ratified the Treaty on the State Border and an additional protocol which provided an exchange of territories. In return of 7 kilometers of the road Odessa-

Reni (which is going through Moldova territory across Palanka village) Ukraine has provided Moldova with a small piece (appr. 400 metres) of Danube river bank near Dzurdzulesty village to built a river terminal there. This regulation still didn't get a consensus in Moldovan society. Government of Republic of Moldova has ignored strong opposition inside country. Some political leaders still treat the protocol as wrong and unfair and call for reconsidering. This border dispute determined a debate on the essence of bilateral relations. Complains appeared that Ukraine behaves as an 'elder brother' using the weakness of small poor neighbor.

In January 2003 the parties started the process of border demarcation according to Border Treaty. Two obstacles actually slowing down this process, namely: lack of funds and Transdniestria issue. Almost a half of Ukraine-Moldova border is under control of Tiraspol separatist regime. This part of border is probably the most criminalized one in the East of Europe.

Another tension appeared when Moldova have introduced new custom stamps in 2001, demanding all foreign partners not to recognize old ones any more. The reason was to limit illegal economic activity of Transdniestria and meet WTO criteria. *Ukraine, however, decided not to stop trade with the old stamps arguing that by this policy Chisinau wants to block and kill economy of Transdniestria. About a year has been needed to dissolve this dispute. This tension gained international resonance; Ukraine's position got negative perception of the EU and WTO.*

The parties did not achieve a consensus on establishing of joint custom check-points on Ukrainian side along Transdniestria border. Again, Ukrainian government suggested not to isolate Transdniestria foreign trade before the general solution of the conflict would be achieved.

The key problem of Ukraine's standpoint vis-a-vis Moldova is that *there are some strong business-political groups which are interested in preservation of status-quo in Transdniestria to continue some gray and shadow businesses.* They do not express their position transparently but try to press government and president of Ukraine to preserve direct contacts with Transdniestria regime leaders. Lobbyists of Transdniestria exploit the issue of Ukrainian minority in that region of Moldova to get some public legitimacy of this policy inside Ukraine. As a consequence, Ukraine's policy remains ambivalent, contradictory, which undermines trust between Kyiv and Chisinau without any real benefits for both.

The position of Kyiv on the so-called Kozak's Memorandum on federalization of Moldova offered in November 2003 has been unclear as well. In the beginning official support of this plan has been expressed by the president. Later, after plan collapsed, MFA acknowledged that the plan needs further debates and elaboration.

Ukraine and the Republic of Moldova lack bilateral cooperation in their relation vis-a-vis the EU. In my opinion, it would be a good common agenda, using the experience of Vyshegrad countries, which cooperated for the sake of European integration.

Europeanization is the strongest ambition for both countries. Ukraine and Moldova are the only Western NIS to search for EU membership. Therefore, they can and should speak in common voice to push European capitals to more active Eastern policy. In particular there is a need of *common approach to border policy, visa and migration issues, transport, infrastructure development, dealing with smuggling and human trafficking, rehabilitation of victims of international crime etc.*

Ukraine's policy towards Moldova reflects the desire of official Kyiv to play a role of regional leader in the East of Europe. This is an honorable ambition. However, in order to conduct such a policy efficiently, Kyiv needs to learn and follow European style of leadership with a strong stress on responsibility of the large state before the smaller one.

Echo of the bread crisis

by Anatol Gudim

Many people still remember the troubles of the wheat and bread crisis of 2003: bad wheat harvest, protracted reaction of the Government, "bread mafia", abrupt increase (39.8% a year) of prices for bread, emergency actions of the Parliament, Government and economic units to import wheat. One as well could think the situation is under the control now. The Higher Security Council of the Republic of Moldova under the President V. Voronin examined the facts of the matter twice (February 28 and April 27, 2004) and "demanded the Government to take measures that would allow no more bread crises, to call those responsible to account and establish a strict control over economic units activating in this field"[1].

It should be mentioned though that the main indicator – prices for bread – stabilized in the first half of 2004 (% to the December of 2003)[2]:

	January	February	March	April	May	June
First grade bread	99.8	99.8	99.8	99.8	95.0	94.9
Second grade bread	100.2	100.1	100.1	100.2	97.0	96.6

And first of all this is beneficent for the poor (circa 40% of the population) that spend the major part of their incomes for food.

Sudden news

And all of a sudden, when nobody expected it, alarming information came from the "bread frontline" in July:

- mayors of some settlements (Cricovo, Sanjera, Ciorescu) stated during a session of the Chisinau municipal council there are bread lines and deficiency of "cheap" bread whose main consumers are pensioners and poor families;

- Franzelutsa SA controlled by the state, the monopolist (about 90%) in the bread production in the municipality, despite the Government recommendations halved (down to 20% instead of 35-40%) production of "cheap" bread since its losses during May alone made up 1,6 mil MDL;
- The harvest has begun and the wheat producers (it is expected that the crop will be good of 700-800 thou tons) worry about its sale and price. While the Government promised that it "will announce terms of purchase of bread grain in the nearest future and intends to buy grain directly from producers for a price that would account for expenditures and revenues"[3]. The Ministry of Agriculture thinks that it will most likely be 1,8-2,0 MDL per kg of wheat;
- In the meantime, the neighboring Romania that also expects a good crop set a 25% customs duty on wheat, citing the need to protect its internal market from cheap grain from Moldova, Ukraine and Russia[4].

Actions of authorities

The bread crisis of 2003 that has endangered the country's food security, as it is well-known, has also seriously shaken the whole state machinery. Learning a lesson from the occurrence, the President, Parliament and Government took a series of urgent actions to regulate the situation in the bread and grain market. Among them were:

- decisions of the country's Higher Security Council to monitor the bread and grain market, take control of prices and importers to eliminate illegal schemes with participation of many intermediaries;
- the Parliament prolonged the term of exemption of VAT and customs duties concerning the wheat (as well as of rye, barley and corn seeds) import till September 1, 2004;
- the Government decreased prices for 10-12% on average since May 1, 2004, for bread produced by Franzelutsa SA (in November of 2003 the enterprise increased them by 46%). At the same time, a programme to prevent bankruptcy of this enterprise was elaborated through compensations of its grain purchases from the state reserve and restoration of lost circulating assets;
- the import was monitored; but instead of expected 115 thou tons of wheat there was imported in the first half of 2004 only 19,4 thou tons, but, on the other hand, a lot of flour – 46,2 thou tons; a tender was conducted (the winner is Moldova Druck SA) to deliver to Moldova 12,5 thou tons of wheat from Canada and Latin America at 164,0 USD per ton to Ilyichevsk (Odessa) port, plus another 20,0 USD for delivery to the Floresti grain elevator;
- the Public prosecutor's office brought 8 criminal actions concerning violations revealed at Franzelutsa SA, and there were annulled dubious contracts of this enterprise with intermediary companies.

Are these actions enough? Do they guarantee that errors and abuses in the wheat and bread market, including those in which corrupted officials participate will not happen again?

Transparency and competition are necessary

As one can see, reaction of authorities to the wheat and bread crisis of 2003 showed mainly through administrative and organizational actions. But this is clearly not enough for transparency and competitiveness of the market environment.
Moldova's grain market tends to grow. Over the last years, more than 60% of sown areas have been under grain and in productive years export of wheat, barley and corn exceeds 1/3 of the total export of plant cultivation products. But there still has been formed no stable legal base of this market.

We already have exotic – for many other countries – laws "On wine" and "On walnuts", but no law on a more important thing - "On grain and grain market". Meanwhile, it is this law that – under experience of Russia, Kazakhstan, Ukraine, Romania and Hungary – has to be oriented at creation of legal, economic and institutional conditions for competitive production and formation of a grain market that would provide for the country's internal needs of bread, seed and fodder grain, as well as its export. The main aspects of the law should include: participants in the grain market, state support of grain production and processing, formation and utilization of grain resources, control over quality of grain, grain storage, organization of grain purchases for the state reserve, formation of an intervention fund to stabilize prices, grain export-import operations. Strict execution of such law will raise transparency and restrain voluntarism.

There are other actual problems that require solution. Will there be implemented a mechanism of state grain purchases from peasants on the security of their grain? Will standards of financial and informational service of the grain market be improved? How justified is preservation of the monopolist position of Franzelutsa SA in bread production? Why there were introduced no targeted compensations for bread for the poor instead of the populist, but unprofitable for the state, production of "cheap" bread for everyone?

All these solutions belong to the market arsenal. And unless we accomplish them, a bitter statement will remain topical: "Bad harvest of grain is a misfortune, but the rich one is a burden as well".

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[1] Нет – повторению хлебного кризиса. «Независимая Молдова», April 28, 2004
[2] Source: Department of Statistics and Sociology
[3] Government press release, July 6, 2004
[4] Ministry of Agriculture of Romania, AP Flux, 8 июля, 2004

Moldova - Transnistria: Rules for Business

by Liliana Agarcova

A meeting of businessmen from Moldova, Transnistria and Gagauzia (Cocieri/Dubasari) was scheduled for early July. There have already been several meetings of this kind. They are held actively, but rarely - politicians hamper. The last of these meetings-discussions was held in Chisinau in November of 2003 at the initiative of the Centre for Strategic Studies and Reforms (CISR), the Small Business Association (Chisinau) and the Centre of Economic Studies, the Union of Manufacturers, Agrarians and Entrepreneurs (Tiraspol).

The motto was: "No word on politics, only on improving conditions for mutually advantageous collaboration". The parties agreed that by considering the interests of both business communities it would be easier to restore the integrity of the economic space, attract investors and large projects, jointly and proudly enter the external markets.

Recommendations were expressed, as well as the desire to form a consulting council for the authorities. But the "Kozak Memorandum" incident interfered. And the plans to meet again were thwarted by the recurrent burst of politicians' emotions, this time regarding the right to privatize industrial enterprises in Transnistria.

Fortunately, the life does not end here. And the search for common grounds to restore the integrity of the economic area of Moldova as a "common state" has to go on. More so, since the Republic of Moldova made several "steps forward" regarding registration, taxation, and protection of consumer rights.

Thus, so far, the problem of registration of economic entities from Transnistria at the State Registration Chamber of the Republic of Moldova and issue of papers confirming the place of manufacturing goods and services in order to apply VAT were the most spiny ones. However, the registration allowed economic entities from eastern raions of RM not to apply VAT on delivered goods and services, but it did require passing a series of bureaucratic procedures within tax and customs bodies and at the Chamber of Licensing. On the one hand, the provision on the registration of economic entities from the eastern raions at the Registration Chamber of RM in the Law on Enforcement of Title III of the Tax Code "Value Added Tax" may be seen as political, but on the other hand they may be seen as a tax concession upon delivery of goods and services, compared to those economic entities that are not registered. It is also important that the registration of enterprises from Transnistria has automatically granted a benefit to economic entities from the right bank of the Dniester, since the services they have received were not considered as imported and, therefore, the recipients of the services in Moldova were not obliged to pay VAT for these services.

More than a year passed since this novelty has been introduced (measures to carry out export-import operations by economic entities from eastern raions - that is the title of the decision of the Government of RM). And if at first it triggered negative reactions among Transdnistrian administration and enterprises, now the situation is totally different. According to the President

V. Voronin, more than 400 economic entities of Transnistria, including "Sheriff", have registered with the Registration Chamber of RM over the last weeks. What does this mean? One may assume that the decision to register was inspired by the economic benefits available. But it may also be related to the extension of the deadline for inclusion of Transdnistrian economic entities into the Moldovan State Register of Enterprises from January 1, 2004 to January 1, 2005? Or do Transdnistrian enterprises just bide their time?

Apparently, the issue of application of VAT on export-import operations of Transdnistrian enterprises has been settled, but it's not. Most likely, political considerations were decisive in deciding on the registration of economic entities from Transnistria, rather than economic ones. And Moldovan legislators, having disregarded the specifics of VAT taxation of services, automatically exempted Moldovan recipients of services from the left bank of the Dniester of VAT. After all VAT applied to imported services is paid by their recipients, with no right to offset paid VAT during the future delivery of goods and services. As a result of this decision, the state budget of Moldova had to "lose", while economic entities-recipients of services to gain.

And now, after a year, the Government of Moldova examines the issue of taxation of services rendered by Transdnistrian enterprises and it may well happen that these services will be considered as imported and their recipients will be taxed.

Since the business environment for the relations between economic entities of Transnistria and Moldova is still unregulated, discussions between businessmen might be of great help. And there are a lot of questions that require mutually acceptable solutions. Let us mention just the most important:

- Government of RM defined the tax policy for 2004-2007, which stipulates the reduction of the tax burden for businessmen and measures to support domestic producers, boost investments and export, small business development. Now, the Law on State Budget for 2005 is being drafted. It stipulates the reduction of income tax on business activity from 20% to 18% and income tax on natural entities - from 10% to 9%, from 15% to 14% and from 22% to 20% correspondingly depending on amount of income and increase of the non-taxable minimum of 3900 MDL per year for physical persons;
- In view of ensuring uniformed enforcement of the requirements of the Law on Procedure of Import to Moldova and Export from its Territory of Goods by Natural Entities, Customs Department of RM via its decision set a procedure allowing goods to be exported for commercial and production activities, if their value does not exceed 100 thou Euro. Goods that require licensing to be exported and strategic goods of double purpose are prohibited for export;
- Amendments to the Law on Customs Tariff reduce the term of reimbursement of customs duties on goods placed under customs procedure in the customs area from 30 to 10 days;
- Changes were introduced in the procedure of assigning tax codes, submission of data in cases when tax payer changes address, as well as procedures of replacing tax code certificates when lost;
- Amendments to the Law on Licensing of Certain Types of Activity provide for issuing a license for 1 year term for the activity related to gambling industry, 3 years term - for

production of alcoholic beverages, 25 years term - for the activity related to production, delivery and transportation of electric power and distribution of natural gas;
- In order to create conditions for the activity of non-governmental organizations that are to get technical and financial assistance, the Government of RM issued a decision on assigning tax codes to these organizations located in the eastern raions;
- The Law on State Tax provides for a new type of duty to be levied for issuing licenses on the use of official or historical name of the state in a trade mark and/or service mark;
- The Law on Protection of Consumers' Rights bans import and delivery to the market of goods and rendering services if exhaustive and correct information is not provided in Moldovan/ Romanian and Russian;
- As part of Chamber of Commerce and Industry of RM expertise services on goods and contracts shall rendered to Transdnistrian enterprises.

A lot of time was wasted until Moldova and Transnistria finally came to an understanding that a joint agreement is to be worked out on the federative "common state". However, the process of reaching common grounds is difficult. Administrations agree and disagree, while the population and economy suffer. As long as both parties are close to a consensus on establishing a "common economic area", politicians and officials, rather than hamper contacts between businessmen should make use of their practical experience and initiative. We have to come to an agreement "for better is a neighbour that is near than a brother far off". And this Solomon's parable is 3000 years old.

Economic growth does not connote higher human development

by Ana Sîrbu

After a two-year pause, a fresh Human Development Report of Moldova was finally launched in the end of July. Its theme was *Good Governance for Human Development*. It has been determined that there is a strong direct correlation between the level of good governance and that of human development (HD) in a country. The topic elected has proved to be a very audacious one, as characterizing, analyzing and proposing potential measures for a country's governance is not an easy task.

HD is the fundamental goal of the humanity. It is the process of enriching the spectrum of human opportunities for the people all around the world. It permits and facilitates the accomplishment of beautiful, long, healthy lives. Although the human development index (HDI) does not provide us with an exact, irrefutable measure of the HD level of a certain country, it certainly gives us a good picture of where we stand among the other countries of the world in terms of income, health and education. Moldova is placed on the 113th position among 177 countries rated in the yearly Global Human Development Report, pertaining to the category of the Medium HD countries. Although Moldova was in the first half of the 90's one of the most progressive post-soviet republics in terms of reforms, it has not managed to even slightly maintain the position it

had in 1990 when it was ranked on the 64th place according to its HDI. Since then, the human development level of Moldova fell drastically. Now, 14 years later, the republic's position is almost twice lower among the countries of the international community.
Our attention is caught by the fact that even after four years of steady economic growth: 2000-2003, although our GDP continues to rise, the HD level of the country does not ascend.

The HDI evaluates the general accomplishments in a country in terms of three basic aspects: longevity (life expectancy at birth), knowledge (adult literacy rate and combined enrolment ratio), and a decent standard of living (adjusted per capita income in Purchasing Power Parity—PPP$). This year's global report determined that, in 2002, Moldova was on the 113th place, with an HDI of 0.681 on a 0 to 1 scale.

There are three groups of countries according to their HD level: high HD: HDI>0.8; medium HD: 0.5<HDI<0.8; low HD: HDI<0.5.

Now, more than 60% of the world's countries have a higher human development. Moldova is one of the Medium HD countries. But unfortunately, in the transition period, Moldova has had almost the lowest rhythm of economic growth (besides Tadjikistan) amongst all the ex-soviet republics
Although the country's GDP has grown by a total cumulative of 24.1% for the period 2000-2003, when economic growth was finally renewed, its HD position is that same 113th position as it was in 1995, after the sudden transition shock, when the country just started implementing market reforms. Comparing the data used to determine the HDI in both 1995 and 2002, we can analyze the structural changes this index experienced. Considering the components of the HDI in both those years, we are able to see in which areas the Republic of Moldova became stronger and which ones we regressed in. We can observe that life expectancy at birth increased by one year (from 67.8 in 1995 to 68.8 years of age in 2002), despite the high level of poverty and the low level of accession to healthcare by the financially vulnerable segment of the population.

In the education domain though, the situation worsened considerably. The adult literacy rate dropped by 8.9 points (98.9% in 1995 and 90.0 in 2002), and the combined first-, second-, and third-level gross enrolment ratio decreased by 5 points (from 67% in 1995 to 62% in 2002). Why is now almost 9% more of our population illiterate? A large number of people cannot afford education, not even first- and second- level education that is public and free. A large number of children are obliged to work within their households and later, instead of attending the University a lot of them chose to work, within the country or abroad. Although the total number of learning institutions in Moldova is now higher (1674 institutions in 1995 and 1778 in 2002), the total number of students pursuing their studies within these institutions has decreased: 766.5 thou in 1995 and 738.1 thou in 2002. Besides this, our population is steadily decreasing (4.34 mil. in 1995 and 4.23 mil. in 2003) and instead of the elderly people who had received an education, appears the new generation that is not too much aware of the importance of learning. A number of qualified workers, teachers, doctors, etc. leave the country and the schools remain without the employees it once had. Sending their remittances home, all these people contribute to a higher GDP of their country, but a higher GDP does not mean a higher human development level.

In Moldova, the GDP per capita grew indeed between 1995 and 2002, a change confirmed by the increasing *GDP index*: from 0.23 in 1995 to 0.45 in 2005 and the increasing *real GDP per capita (PPP$) rank minus HDI rank* index: from 23 in 1995 to 36 in 2002. Since the remittances sent home continue to increase, these numbers will most probably augment as well. However, we remain on the 113th place. According to the Department of Statistics and Sociology, Moldova is among the countries with a low level of income ($543 for the year 2003). Thus, if not for the remittances sent home by the people employed abroad, it would be a paradox that, with such low incomes, consumption is so pervasive and accounts for more than 100% of the country's GDP. The per capita income in Moldova also speaks about our current poverty situation: circa 40% of the population is below the poverty line. The income insufficiency and the income unequal distribution (the Gini coefficient was 0.421 in 2002) trigger a lower level of healthcare and a worse attitude toward education. Therefore, in order to reach a higher level of human development, the best has to be done in order to eradicate poverty.

We still have a long way to go. In the high human development countries, the average life expectancy at birth is circa 10 years higher than that in Moldova. Education dropped in Moldova, and enrolment in education institutions decreased (this percentage being of only 62%, compared to the high 80's and low 90's percentile of the highly developed countries). Therefore a higher attention has to be given to both healthcare and education.

Although we still are among the countries with medium Human Development, Moldova's position on the HDI ladder has significantly dropped since 1990. Poor education and healthcare are fully recognized signs of poverty, thus the best has to be done in order to eradicate poverty. Also, not only Moldova degraded since 1990, but the other CIS countries proved to be capable of a much sharper and effective progress. The HDI offers us information not only to know how developed we are in comparison with the other countries of the world, but also enables us to deduce a number of conclusions regarding the development dynamics of Moldova relative to other countries and the fields in which a number of measures need to be taken in order to improve our level of HD. It shows us the countries that progressed, that could give us an example of reforms the implementation of which was proved to be effective. Economic growth certainly helps, but it does not necessarily connote a higher HD level.

New Inequality

by Anatol Gudim

The World Bank and International Monetary Fund eventually seem to agree on the date (November) of discussion of “Moldovan triennial”or Economic Growth and Poverty Reduction Strategy (2004-2006), which also took the government three years for its preparation. Most probably the Fund and Bank will approve this strategy and then our Parliament will put it into a legal document, the more so as the first year of this triennial comes to an end.

Do we switch to reforms of a new type?

Meanwhile, it was in parliament where a new initiative was stated: i.e. a transition to new type reforms. First this was said by the President V.Voronin at the close of summer session (on 28.07.2004) and then supported by speaker E.Ostapciuc at the opening of an autumn parliament session on 23.09.2004: “We are to initiate reforms of new types that would facilitate a more sustainable development”.

The essence and methods of realization of the reforms of a new type yet to be interpreted. Still, it is encouraging that the President has acknowledged that the reforms should continue since the very fact of “both social stabilization and economic growth does not mean anything in a poor country”. And this is true. GDP growth has resumed in Moldova since 2000 (its increase came to about 34% in 2000-2004) and this happened while the employment reduced (!) by 10%. Only about 40% of the growth was brought out by industry and agriculture; its growth was mainly caused by service sector, a rise in consumption and taxes levied on goods and import. Besides it was influenced by remittances transferred by our fellow citizens working abroad. It is clear that this pattern of growth guarantees the country neither sustainable development nor high rate of growth of GDP nor social rehabilitation of the population.

From equality to inequality

The assertion of Moldova being the poorest country of Europe became a stereotype. Here it should be added that such drastic social inequality between the new rich and the new poor has not evolved in any of the other 14 post socialistic countries of the Central-East Europe as it has happened in Moldova. After 1990 income inequality in terms of Gini coefficient applied by UNO has doubled and reached 40-44.

Thus, in the mid of 2004 only 6.2% of total household income volume fell to the share of 20% less secured families and 44.2% - to the share of 20% the most well-to-do families. Recent years revival of the dynamics has reduced a poverty zone in Moldova but it has not removed contrasts of inequality.

Nevertheless the majority of citizens of the RM still remember realia of a “developed socialism”, when the state secured relative equality of incomes that basically depended on a salary (except nomenclature’ privileges and “blat” - profitable connections).

Inequality began to increase rapidly during the transition period. At first it was caused by the fact that many people lost jobs and their money saving, and then - by process of privatization of enterprises, land and dwelling. Salaries paid in certain sectors became sharply different. Moreover, entrepreneurs have derived an income from shadow economy and employees of public offices – from corruption.

In Moldova in 1997-2003 real salaries grew annually by 7.7% starting from the mid 90s and after 1999 they have risen on average by 14.7% per year. On the other hand, at the same time the contrasts became even sharper. If in 1996 salaries in agriculture made up 2/3 of average salaries of national economy, then in 2003 they already came to ½. The same tendency took place in education and public health sectors. In 2003 salaries that exceeded an average level were paid in construction, transportation, industrial and financial sectors and public administration.

It is strange, but remittances sent from abroad also spurred the inequality. As the most initiative and educated part of the population went abroad for earning, 70 % of remittances get to well-to-do households. These remittances are spent mainly for consumption and also for "family investments" – for children education, purchase of apartments, land and investment into small business. Additionally, state social programmes do not facilitate much to elimination of inequality. Rendering of assistance in the programmes is based on a principle when citizens are assigned categories but it is not based on their real needs.

As a result, according to the Ministry of economy estimates (2003) only 6.6% of social transfers (without pensions) fell to the share of 20% less secured families and 46.0% to the most well-to-do families – recipients of such assistance.

Images of inequality

Inequality is many-sided. The tenseness of the situation also consists in that the inequality becomes apparent not only through contrasts in incomes or availability of property (which is an obvious sign for today), but through unequal conditions of access to the future – access to education and health care.

According to the sociologists data (2003) the number of days spent by the poor and the well-to-do in hospital are in the ratio of 1:11. The number of matriculated persons from the poor is tree times less than the number of matriculated persons from the well-to-do. Only every tenth is matriculated from the village youth that apply for admission to institutions of higher learning, while from the town-dwellers – every second.

It should be mentioned that the inequality in job opportunities available in Chisinau municipality (small business, construction, service and security sectors) and persistent stagnation for the rest of the territory, except 3-5 other towns (Edinet, Balti, Ungheni and Cahul).

Thus, many of the rights of citizens declared by our new democratic Constitution (1994) are difficult to realize. Thereby life of many people, especially young generation, is dominated by sense of vulnerability, impossibility to plan their future.

What is to be done?

One should not assert that the government does not see the inequality as a dangerous reason of social and political tension. Thus, in EG-PRSP for 2004-2006 “elimination of inequality and increase in participation of the poor in economic development” are mentioned as the priority. Basic approaches for this are well-known and approved in countries that undergo active reforms in transition:

- To increase employment for those who want and are able to work, to stimulate opening of new jobs – especially in a sector of small and medium business;
- To focus attention of the central government and administration of regions on the poorest localities;
- To make social assistance targeted for those who really need the state support.

At present the draft budget for 2005 is considered in Parliament. Again, the Government mentions that the state budget is “real and socially oriented”. But to whom is it directed toward? Confucius said: “ in a well-governed state they are ashamed of poverty, in a poorly ruled state they are afraid of wealth”. Inequality is a real danger for a young, weak state. Or we are neither ashamed nor afraid?

Privatization in Transnistria: Risks and Profits

by Vissarion Ceşuev

Transition to privatization of the industrial potential in Transnistria, in our opinion, means easing of one more fundamental factor of tension of relations between the Republic of Moldova and the region. Along with the “politically-linguistic reason” of the region separation from Moldova in 1990 there were and economic reasons, i.e. unwillingness of the working population to follow the path of formation of market economy based on private property and denial of privatization. That was reflected in the first self-name of the region – the Transnistrian Moldovan Soviet Socialist Republic.

Now when fifteen years passed only one reason out of all others actually exists and is acknowledged by the both parties – **ownership**. All other circumstances - ethnic, political, and linguistic, have faded into the background.

The denial of privatization in Transnistria lasted for a short time. A year of independence was enough to recognize the necessity of private ownership institutionalization and in December 1991 Transnistria’s Law on Privatization was adopted. It stipulated for the following:

- preferential right of labor collectives to choose the form and procedure of privatization;

- combination of refundable and non-refundable ways of transfer of property rights;
- equality of the rights of citizens to obtain a share of property subject to refundable and non-refundable privatization;
- openness and public control over privatization.

This concept envisaged non-refundable transfer of 51% of a privatized company to the members of the labor collective, possibility of leasing the company by the labor collective with the right to redeem the property of the company by the labor collective. The privatization principles used in industry fully applied to the property of collective farms, consumer cooperatives and interfarm associations.

It was announced that a more detailed description of the privatization procedures would be formulated in the Privatization Program, which, however, was not published during the following five years. Moreover, in 1997 the Supreme Soviet of the TMR stopped privatization by a special decree. Meanwhile, in practice transfer of the right to use and manage a number of companies to private individuals continued on the bases of some orders and special decisions.

By 2002 in Transnistria appeared a new conceptual base for a radical transformation of ownership and this process was promoted in 2002-2004. The philosophy of the new privatization concept completely differs from a so-called law of 1991. First of all it refers to the right of ownership of the population of Transnistria. The right to obtain a nonrefundable share of property by every citizen or member of a labor collective during privatization is stipulated neither in the amount of 51% of the statutory capital nor in any other form. The provision on principles of privatization of collective farms, consumer cooperatives and interfarm associations was also extracted. The main principle became the market one: if you have money you are the owner. The reason is the necessity to replenish the TMR budget and the Development Fund.

In accordance with the new Law on Privatization the property right appears only as a result of a contest or auction, i.e. in the presence of not less than two candidates. However, in 2002-2004 there were not uncommon cases when property rights transferred in the presence of only one candidate. That is why there is always a possibility to cancel property rights that appeared in such circumstances. These conditions are so obvious that it is most unlikely that the organizers of privatization, individuals arrogating the right to give property to other individuals, are not aware of them. It is necessary to understand the logic of behavior of organizers of such privatization and its participants as well. We are speaking of the risks assessment.

Everything can be explained by the mentality of minions. All the involved parties understand that sooner or later the defined property rights may vanish into thin air that is why it is difficult to provide a long-term future of a privatized company (a joint stock company). All attempts to replenish the working capital of such a company by placing shares in the secondary market will be hopeless. It is rather doubtful that there is a bank, which accepts illegal property as a long-term pledge.

It is obvious that neglecting interests of both labor collectives and administration of the privatized companies will also have painful effects. The possibility of strikes, serious conflicts between the staff at all times considering their companies as “a second home” (at the emotional

and psychological levels) and new owners is very high. There are such examples already: Tighina company (Benderi), Metallolitography company (Tiraspol), and others.
The economic base of the rights of the labor collectives to obtain a share of property of their companies constitutes the fact that for many years the staff of the companies received as salaries not more than 10% of surplus product. It is a well-known fact of the planned economy era. That is why even if a Transnistrian company will be announced a branch of a foreign company having all legal requisites in its country, for example in Russia, overcoming the resistance of the working collective will require emergency methods. It is risky and ungrateful.

If proceed from the fact that the new owners have understood the real situation, the most logical conclusion could be that industrial privatization in Transnistria is carried out with one short-term objective: to take a risk and to receive capital both from production and sale of stock of equipment, raw materials and other parts of fixed assets.

The issue on property in land is not solved either. The regional referendum on this issue held in 2003 gave a negative result. It was a result of a longstanding social aim of the population at the inevitability of misfortune which property in land brings. Meanwhile, agriculture in the region is already a disaster as a result of a complete bankruptcy of the kolkhoz-system, which, as it is known, cannot operate effectively without non-economic compulsion to work and financial benefits.

The way out was found in rather exotic actions: in autumn 2004 in accordance with the decree of the president of the TMR collective farm Parcani in Slobodzia was abolished as a legal entity. Its land (more than 6,500 hectares), buildings, facilities, other asserts were let to lease to one of Transnistrian businessmen for 99 years, i.e. nearly forever. It was nothing else but assignment of a landlord and proclaiming hundreds of villagers, former collective farmers, landless on their own land. In history of Moldova this fact probably has no precedent. Neither the tsarist government in the end of 19th century, no Romanian government in 1920-1921, when carrying out the land reform in our region, dared to leave those who worked on the land without it, i.e. without any hope.

It appears from this that impetuous actions on privatization in Transnistria are unconvincing so far and outside the region they are not perceived as legitimate enough. *What is the solution of the problem*? As yet there are two approaches.

The first one: not to recognize any results of privatization and to press for an unconditional return of the economic potential of Transnistria to the legal field of the Republic of Moldova. With the help of the international society to establish control over all the territory and carry out re-privatization in accordance with legislation of the Republic of Moldova. This process for sure will be accompanied by opposition of new owners of Transnistrian companies including sale of asserts of privatized companies that looks like scorched earth tactics. This risk, this option of developments, cannot be excluded.

The second one: to follow the principles of “Dmitrii Kozak’s Memorandum” where, among others, there was included a paragraph on recognition of property rights that appeared during the period of the PMR existence. In this instance, the population of the right-bank will not be able to realize their property right in the territory of the left-bank. Meanwhile, as is well known, whole Moldova participated in building up the left-bank area potential. Besides, in1993-1995 about 150 thousand residents of Transnistria participated in privatization of the right-bank territory potential. At present many of them collect dividends from their shares that were bought for national patrimony bonds. Thus, in the press of the RM in September-October 2004 "Agrofond" and "Dividend" placed regular advertisements for dividend payment with the address particulars at which the residents of the left-bank could collect their dividends.

If to adhere to the principle of "everything which is on our land is ours" then one might get to a point when rights of joint property with foreign companies ought to be annihilated. All these issues are not simple and require a cautious solution taking into account interests of the parties on the reciprocal basis.

Therefore, we believe that *the third approach* to be more productive: to regulate property relationships and legalize the enterprises privatized in Transnistria by a special scenario that takes into account both Transnistria realia and the outlines of a recently adopted law of the RM on left-bank enterprises privatization (October 2004). This scenario may include to following steps:

1. to inventory and appraise the assets value by internationally recognized methods on the basis of experience gained e.g. by the Association of Appraisers of CIS countries;
2. to document the real investment made into the enterprise of the Investor that gained entrance to it in the course of Transnistrian privatization;
3. to coordinate the size of property distributed among working collective members and the state property share assigned on certain conditions to the state with its further distribution among other citizens;
4. to secure registration of the securities of privatized enterprises (stock and shares) in the National Committee on Securities of the Republic of Moldova and their admission to the stock exchange of Moldova and as a pledge assets in the banking area;
5. to hold joint stock companies stockholders' meetings, to pass the foundation documents in accordance with the current legislation.

In other words, it is proposed not to consider those who invested their funds into the left-bank potential to be the opponents. They should not be personally blamed for the current legal confusion in such a delicate issue. Yet they spent their funds i.e. they expended their undeniable private property. This should be taken into account quite benevolently. This is the advantage of privatization in Transnistria to all the inhabitants of Moldova.

A well-weighed approach based on a respect of private property will make it possible to solicit the international financial organizations for opening a special credit line for a revival of economic potential of Transnistria. And if new owners of the privatized enterprises in the region take into account the conditions stipulated by the government of the RM, the latter could step forward as a guarantee of such loans. Then, the confrontation could eventually be over and it would be possible to proceed together to reconstruction of the economy of the "common state".

“Frozen conflicts in the post-soviet area in a new geo-political context”
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The New Neighborhood: Moldova – European Union

by Anatol Gudim

Enlargement of the EU, its replenishment with another 10 countries in 2004 – from the Baltic states in the North to Cyprus and Malta in the Mediterranean – created new challenges both for EU itself (EU-25 now) and its new neighbors. EU voiced its vision of the situation through the concept of “Wider Europe – Neighborhood”[1], which doesn’t exclude further enlargement of the EU, but gives priority to “its internal consolidation and encirclement with well-managed countries”. The new neighbors include 14 countries, most of which are in the Balkans and Mediterranean and four in the East – Ukraine, Moldova, Belarus and Russia. But only two of them – Ukraine and Moldova – aspire to join the EU.

Moldova’s European Choice

The first decade since gaining independence – the 90’s – Republic of Moldova devoted to formation of its statehood, transition to democracy and market economy, macroeconomic stabilization and overcoming separatist tendencies (Transnistria, Gagauzia), which first of all required establishing constructive relations with the UN and international financial organizations, as well as with Russia that dominated post-Soviet area.

At the same time, due to position at the junction of the Central Europe, the Balkans and the CIS and being a country with predominance of Latin ethnos, common historical and cultural roots with the countries of South-Eastern Europe, with Romania in particular, the Republic of Moldova, like the Baltic countries, was more predisposed to “return” to Europe than other post-soviet republics. And the first steps along this path were:

- Moldova’s ascension – first among the CIS countries – to the Council of Europe (1995);
- Coming into effect of the Partnership and Cooperation Agreement between the European Union and the Republic of Moldova (1998);
- Moldova’s ascension to the World Trade Organization (2001);
- Moldova’s joining to the Stability Pact for South-Eastern Europe (2001);
- Development of the Concept of the European Integration of the Republic of Moldova (2003);
- Approval of the Action Plan EU-Moldova by the European Commission and the Moldovan Government (2004-2005).

As we can see, Moldova’s progress towards Europe was not as dynamic and productive as that of other Central European countries. All those years EU was also sizing Moldova up without giving it hopes but not rejecting it, either. In fact, during that period the Republic of Moldova – balancing between EU and the CIS – was in a zone of geopolitical instability, following the principle "we should be everywhere where it is advantageous to us". This position could be explained mainly by economic arguments i.e., the CIS, especially Russia, is the main Moldova's export market, on which Moldova completely relies for energy imports. On top of that, it is Russia's companies (energy, engineering and winemaking) that are major investors in Moldova, including Transnistria.

Finally, in 2003 Moldova's leadership took a more explicit position on rapprochement with EU: "Republic of Moldova declared the path of European integration as the main national strategy of the state. We are aware how difficult and important this path is, but at the same time we announce that it is an internal political and economical choice of Moldova first of all"[2].

Advantages of Moldova's rapprochement with EU lie in the political, economical and social areas. Politically it means stability of democracy, rise of the state and citizens security. Economically it means the elimination of "peripheral economy syndrome", increase of country's competitiveness and prospect of a stake in the EU's Common Market, expanding access to the development funds, investments and new technologies. Social aspect means harmonization with European standards in education, healthcare and environmental issues, access to information and protection of human rights. And finally, the constructive settlement of Transnistria problem, the only 'frozen conflict' at the Eastern land border of the EU, is of considerable importance both for Moldova and the EU.

Transformation of the Economy as a Driving Force

Position of the Republic of Moldova as an EU's neighbor will mainly depend on what social and economic bases will be created through the economic policy conducted in the country. The fact that over the transition period Moldova endured the deepest economic recess among the post-Soviet countries (2/3 of GDP), is currently a divided country (about 30% of its industrial potential is in Transnistria) and, unexpectedly for its population, has become the poorest European country makes this task more difficult.

The transformation process of Moldova's economy can be divided into two periods: radical and gradualist. The first of them (1991-2000) prioritized liberalization of the economy, while the second one (beginning with 2001) is marked by strengthening of the state's role in stimulation of the economic growth. Having overcome crisis and depression, the country's economy passed the "point of no return" in 2000 and started demonstrating a moderate economic growth over the last five years (6-7% a year), which is comparable to the average GDP growth indicator over CIS, but smaller than in the neighboring Romania and Ukraine (2004).

Now, there are enough signs that Moldova's economy has mainly adapted to the market conditions: major part of GDP (more than 70%), industrial and agricultural output, constructions, as well as services (including transport and telecommunications) are being provided by private sector; unemployment rate (under the ILO methodology) became steady at 6-7%; household incomes and consumption grow. Share of the population with incomes less than 2.15 USD per day decreased by 1/3 (about 40% in 2004). It is important, that these changes have also had positive influence on dynamics of the Human Development Index used by the UN. So, if in 1990 the HDI for Moldova was 0.736 and it worsened down to 0.673 in 2000 there was registered an increase in HDI to 0.700 during the last years. The positive dynamics for Gini coefficient and social inequality decrease is outlined too.

At the same time, the range of problems requiring solution became more manifest: improving quality of economic growth, provision of comfortable environment for entrepreneurship and investments, elimination of mass labor migration, pro-poor targeting of social assistance, raising the quality of governance and counteracting the "takeover" of the state by business groups feeding corruption in the administrative system. These unsolved problems and slow course of structural reforms restrains modernization of the economy and promotion of its competitiveness and achievement of sustainable socio-economic development.

Realities of 2004

On the whole, 2004 was successful for Moldova's economy, if judging by such indicators as:

- GDP growth of 7.3%, and 33.2% - or 1/3 – over 2000-2004, which is quite a lot;
- Incomes of the consolidated budget increased by 13.6%, which (along with the borrowing from the NBM's reserves) allowed to decrease the Government's external debt by 12.1% and raise wages of those employed in the budget-supplied sphere and pensions;
- A more balanced dynamics of money aggregates. Amount of bank credits increased by 22%. At that, the resource base of the banking system in form of drawn deposits grew by 39%;
- Investments growth rate into fixed capital tended to forestall GDP growth. The main sources of investments are funds of economic units and the population (65%) and foreign investments (20%). 74% of investments were used at production units;
- Export exceeded $900 mil, which is more than in any of the previous years of the transition period. Pro-EU orientation of the export has strengthened: 1995 – 12%, 1999 – 21%, 2003 – 26.6% and 2004 – 30.0%. Besides, 10.8% of export fall at the countries of Central and Eastern Europe;
- Monetary reserves of the NBM were raised 1,6 times (up to $470,3 mil);
- Real monthly wage grew by 10.2%;
- Recovery of the demographic situation in the country begins to show (birth rate increase, death rate decrease).

The majority of these tendencies were of the positive orientation over the whole last five years. And it favored the growth of social optimism. At the same time, there is a changeable balance of positive and negative circumstances in the Moldovan economy (see *Graph 1*), which has showed through the realities of 2004 well:

- The economy has rebounded mostly due to agriculture, favorable external market situation and domestic consumption growth, fuelled by the "tsunami" of workers' remittances and sizable increases in wage;
- The major part of the GDP growth in 2004 was provided by agriculture and food industry – sectors of unstable development. Food products made up 60.8% of export, including

alcohol – 28.3%, which is more than the share of machinery and light industry products (26.1%);

- Creation of new workplaces does not neutralize the tendency for employment decrease (7.1% over 2000-2004). Export of labor force is no less than 300 thou persons, or 20% of the economically active population;
- Chronic lack of investments hampers reconstruction of the industrial potential and infrastructure (energy sector, roads and transport, water supply, etc.);
- Trade balance deficit reached dangerous proportions: in 2004, import was 1,8 times larger than export – the country helps other countries' producers;
- Inflation rate of 12.4% (average annual) was the highest since 2000, which has fairly weakened efficiency of the social policy.

Problem of the quality and sustainability of economic growth became the central topic of political discussions in 2004. The President has also contributed to this by setting a task for the Parliament and the Government to "proceed to reforms of the new type". In harmony with this, "sustainable and socially-oriented development" has been established as the main reference point of the Economic Growth and Poverty Reduction Strategy (2004-2006). It was acknowledged that "the quality of economic growth in Moldova is affected by unbalanced structure of the economy, by mono-structural export, and by low investment in fixed capital. Such a growth paradigm does not provide a basis for the sustainable growth needed to reduce poverty… To change the paradigm and quality will require mobilization of new resources and factors of growth…[3]"

EU – Moldova Action Plan

Republic of Moldova has become the first country, with the Government of which the European Commission coordinated the Action Plan (February 2005), thereby suggesting Moldova to demonstrate specific progress in Europeanization of the country, in mobilization of new sources and factors of growth within 5 principle components of the plan:

- Political dialogue (democracy and the rule of law, human rights and fundamental freedoms, sustained efforts towards settlement of Transnistria conflict);
- Economic and social reforms and development (improve welfare, functioning market economy, trade-related issues, movement of persons and coordination of social security);
- Justice and home affairs (efficient implementation of legislation, border management, fight against organized crime, drugs, money laundering);
- Transport, energy, telecommunication and environment (implementing selected policies, measures and reforms);
- People-to-people contacts (research and development programmes, education, culture issues, civil society cooperation, cross-border and regional level cooperation).
- The key element of the EU-Moldova Action Plan is the economic component. What is important, the term of its implementation coincides with the medium-term Economic Growth and Poverty Reduction Strategy, which the Government of the Republic of Moldova agreed with the IMF, World Bank and donor organizations. This increases even more the responsibility of the Government, which has outlined the following progress steps for itself[4]:

- Implement the EU-Moldova Action Plan in 2005-2007 and create conditions for Association Agreement between the EU and the Republic of Moldova;
- Achieve the first Copenhagen criterion (democratic state system) by the end of 2009, and the second (competitive market economy) – by the end of 2012;
- Complete negotiations of the Moldova's adherence to the European Union by 2015.

Having accepted a decade as a term for approaching the EU, Moldova's Government sees the following obstacles on this path: imperfect national legislation as compared with the communitarian legislation, absence of appropriate institutions and personnel, slow advancement of the second wave of reforms, and unsettled Transnistrian conflict, as well as "uncertain position of the EU as concerns Moldova's status as an adherence candidate". And it is true. Moldova's European choice has to have a historical perspective.

The concept of the "Wider Europe – New Neighborhood" and the EU-RM Action Plan make relations between Moldova and the EU become better-defined. Moldova is to demonstrate that it's capable of cooperating with the EU and can perform concrete progress in governance and reforms. And Moldova needs support along this way. If the Action Plan for 2005-2007 is implemented successfully the country may benefit from the prospects of closer economic integration, including movement of capital and technology, preferential trade relations, legitimate migration, etc. But a key question is that of finality. Moldova needs hope as a source of strength, it should be recognized as a European country and its European aspirations should be welcomed.

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[1] "Wider Europe – Neighborhood: A New Framework for Relations with our Eastern and Southern Neighbors", COM (2003), Brussels, 11.03.2003

[2] "The Path of European Integration as the Main Strategy of the State", Speech of the President V. Voronin at the 58th session of the General Assembly of UN, N.Y., 23 September 2003

[3] Economic Growth and Poverty Reduction Strategy (2004-2006), Government of the RM, May 2004, Monitorul Oficial al RM, #5-12, 2005

[4] Millennium Development Goals of the Republic of Moldova, Government of the RM, Chisinau, September 2004